

How To Fund The Budget

INTRODUCTION

This chapter provides demographic and economic assumptions, including detailed discussions of the national, State and local economies. Revenue sources, both tax supported and non-tax supported used to fund the County Executive's Recommended FY07 Operating Budget incorporate policy recommendations.

ESTIMATING SIX-YEAR COSTS

Demographic Assumptions

The revenue projections of the PSP incorporate demographic assumptions based on Council of Governments Round 7 estimates, as prepared by M-NCPPC, and are based on fiscal and economic data and analyses used or prepared by the Department of Finance.

- County population, which was 942,000 in 2005, will continue to increase an average of 10,600 persons each year throughout the next seven years reaching over one million by 2012. This reflects an average annual growth rate of 1.1 percent which is below the average annual growth rate of 1.6 percent during the late 1990s.
- There were an estimated 347,000 households in the County in 2005. Household growth throughout the next seven years is now projected to range between 4,000 to 5,000 units each year, which translates into a growth rate of 1.2 percent annually. As a result, current projections estimate 378,000 households by the year 2012.
- The County's senior population continues to grow with an estimated 100,241 persons 65 or older living here in 2005 and projected to increase to 126,371 by 2015.
- County births, which are one indicator of future elementary school populations and child day care demand, are now projected to gradually increase, from an estimated 13,600 in 2006 to 14,440 by 2012.
- Montgomery County Public School enrollments are projected to increase modestly over the next six years. The County expects an enrollment increase of 943 students from FY07 to FY12.
- Montgomery College enrollments are projected to increase from 22,700 in September 2006 to 23,940 in September 2010 (FY11). These estimates are based on a continuation of growth in fall enrollment.

Using moderate economic and demographic assumptions to develop fiscal projections does not mean that all possible factors have been considered. It is likely that entirely unanticipated events will affect long-term projections of revenue or expenditure pressures. Although they cannot be quantified, such potential factors should not be ignored in considering possible future developments. These potential factors include the following:

- Changes in the level of local economic activity,
- Federal economic and workforce changes,
- State tax and expenditure policies,
- Federal and State mandates requiring local expenditures,
- Devolution of Federal responsibilities to states and localities,
- Local tax policy changes,
- Changes in financial markets,
- Major demographic changes,
- Military conflicts and acts of terrorism, and
- Major international economic and political changes.

The scenario is based on demographic assumptions resulting from COG Round 7 estimates as projected by M-NCPPC. A Trends and Projections chart located at the end of this chapter provides several demographic and planning indicators.

Policy Assumptions

Revenue and resource estimates presented are the result of the recommended policies of the County Executive for the FY07 budget. Even though it is assumed that these policies will be effective throughout the six-year period, subsequent Council actions, State law and budgetary changes, actual economic conditions, and revised revenue projections may result in policy changes in later years.

Economic Assumptions

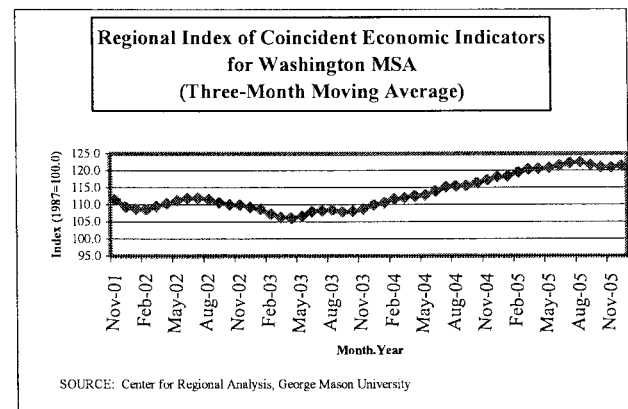
Revenue projections depend on the current and projected indicators of the national and local economy. National economic indicators also influence the County's revenue projections. Such indicators include short-term interest rates, mortgage interest rates, and the stock market. Local economic indicators include employment, retail sales, housing sales, residential and nonresidential construction, inflation, and consumer confidence. The assumptions for each of those indicators will affect the revenue projections over the six-year horizon. Because of the large presence of the federal government, both in terms of employment

and procurement, Montgomery County's economy does not experience the volatility that is experienced nationally. Nevertheless, the County's economy is impacted by major fluctuations in federal spending and employment. For example, between 1992 and 1999, when the nation experienced significant economic growth, the County lost almost 6,400 federal jobs or 1.4 percent of the workforce. Through direct employment, grants in aid, and procurement, the federal government remains the largest sector in the region and represents an estimated 29.3 percent of the County's economy in calendar year 2004, the latest date for which federal spending in the County is available.

The economic projections for the next six fiscal years assume a slow but sustainable growth rate. However, such projections are dependent on a number of factors – fiscal and monetary policy, consumer and business confidence, the stock market, mortgage interest rates, and geopolitical risks, especially international terrorism.

The national economy experienced sustainable growth during calendar year 2005. For the year, real gross domestic product (GDP) grew 3.5 percent with much of the growth attributable to consumer spending, business investment in equipment and software, and residential investment. Prospects for economic growth are projected to continue into 2006 with real GDP expected to increase 3.2 percent. That growth rate will depend, in large measure, on whether the consumer increases spending and business investment continues to expand. Total national payroll employment is projected to increase 1.6 percent year-over-year or an average monthly increase of 179,400 new jobs. Inflation is expected to remain at or below the 3 percent level in 2006 with the long-term average of the overall inflation rate at 2.5 percent between calendar years 2006 through 2010.

Because the region's economy is significantly dependent on spending by the federal government, the recent surge in federal procurement boosted the region's economy during 2005. According to data from the Center for Regional Analysis, George Mason University, the Washington region's economy grew 4.2 percent in 2005 and is expected to grow 4.0 percent in 2006. The Washington Coincident Index, which represents the current state of the region's economy, increased 2.4 percent in 2005 compared to the 1.3 percent for the National Coincident Index. Since the beginning of 2005, the region's economy added 81,600 new jobs, the largest increase among the country's major metropolitan areas, and the unemployment rate was 3.5 percent, one of the lowest among the nation's largest metropolitan areas, and slightly below the 3.7 percent in 2004.



Montgomery County experienced stronger economic growth in 2005 compared to 2004. However, economic activity during this period was not stellar. The primary reasons for the County's less than stellar performance were a contraction in the growth of residential and non-residential construction, a modest decline in housing sales particularly during the second half of the year, and rising energy costs attributed to high oil prices. Inflation in the Washington-Baltimore region increased dramatically during 2005 and reached 4 percent.

However, a number of economic indicators for the County experienced significant improvement during 2005. Foremost among the indicators that exhibited strong performance was the labor market. After growing an average of less than one percent between 2001 and 2004, total payroll employment growth is estimated at nearly 2 percent during 2005, its strongest performance in over four years. Average weekly wages are expected to increase 4.6 percent in 2005, which follows a strong 6.0 percent in 2004.

Because of a jump in inflation, retail sales as measured by sales tax receipts moderated to 5.0 percent during 2005 compared to 6.7 percent in 2004. After growing 6.1 percent and 6.6 percent during 1999 and 2000, respectively, sales grew 3.8 percent in 2001 less than 1.0 percent during 2002, and 4.0 percent in 2003. The effects of a strong labor market during 2005 helped offset the dramatic increases in energy costs to households thereby enabling households to maintain a significant level of spending in 2005 albeit at a slightly lower rate compared to 2004.

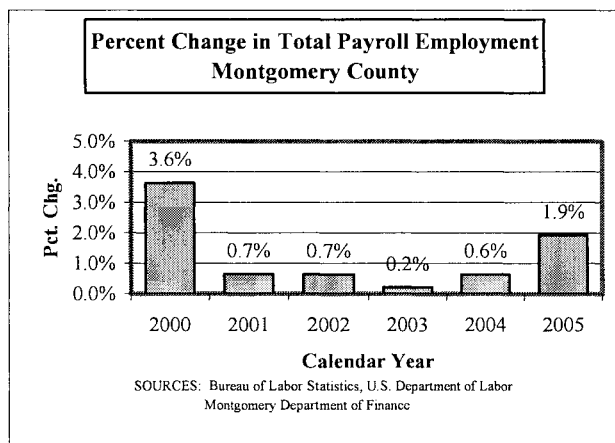
The strong employment activity has affected the real estate market in the County. With mortgage rates remaining at historic lows during 2005, home sales continued to increase during the first half of 2005 but weakened during the second half while average sales prices continued their meteoric rise of an estimated 18.5 percent reaching an average of over \$509,000 for the year. However, residential construction has not matched the rise in home sales and prices.

Construction in the County experienced a significant slowdown in 2005. Non-residential construction reflected in square footage and dollar value decreased and is attributed to a decline in the commercial sector, while the number of new residential projects declined for the third year in a row. Vacancy rates for office space in the County moderated at the beginning of the year and improved slowly dropping to 7.4 percent by December for Class A property.

It is against this backdrop of a strong labor market, high-energy costs, a decline in home sales, moderate consumer spending, and weak construction activity that the Department of Finance estimates a slightly slower pace of growth in employment, a slight deceleration in the growth of personal income and wages and salaries and somewhat higher yields on investment attributed to the policy of the Federal Reserve Board for 2006.

Employment Situation

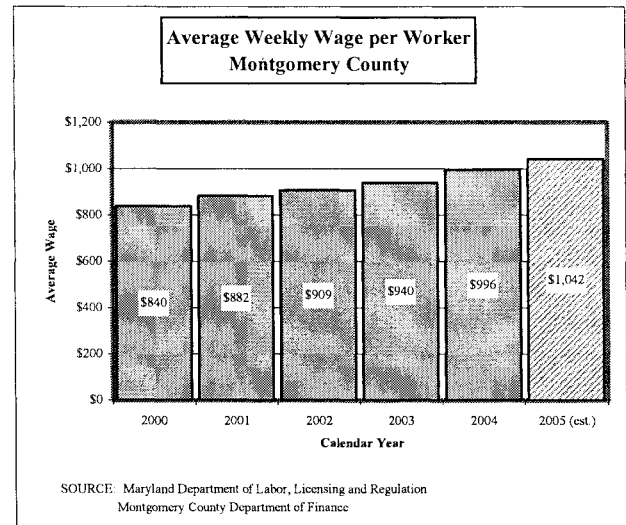
In terms of the County's total payroll employment, an average of approximately 2,400 jobs per year was added to the County's employment between 2000 and 2004. However, in 2005 companies in Montgomery County increased their hiring. Based on preliminary estimates derived by the Department of Finance, the County added 9,000 jobs in 2005.



Based on this assessment of the employment situation in Montgomery County, the Department of Finance assumes that employment will grow at a rate comparable to the nation's rate with a 1.5 percent increase in 2006 followed by growth of 1.4 percent in 2007, as opposed to the rapid growth experienced during the late 1990s and 2000. However, the number of jobs is one indicator of the employment situation in the County, the other important factor is the growth in wages and salaries.

From 1996 through 2001, wages of Montgomery County employees increased an average of 4.9 percent per year but decelerated in 2002 and 2003 to an average annual rate of slightly less than 3.2 percent. Since that time the average weekly salary increased 6.0 percent in 2004 and is expected to have grown 4.6 percent in 2005 based on data

for the first half of 2005, the latest date for which data are available.



While the payroll employment made significant gains during 2005, data from the labor force series also reported that employment based on place of residence grew 2.1 percent, or 10,000, in 2005. With significant improvement in resident employment, the unemployment rate for the County remained well below the State's average. As of December, the County's rate at 2.6 percent was a full percentage point below the State's average and slightly below the region's 2.9 percent.

Although the County's payroll employment may not be growing at the same pace compared to the 2.8 percent for the Washington Metropolitan Area, the low unemployment rate suggests that both the public and private sectors are providing a stable foundation against significant labor market volatility in the County.

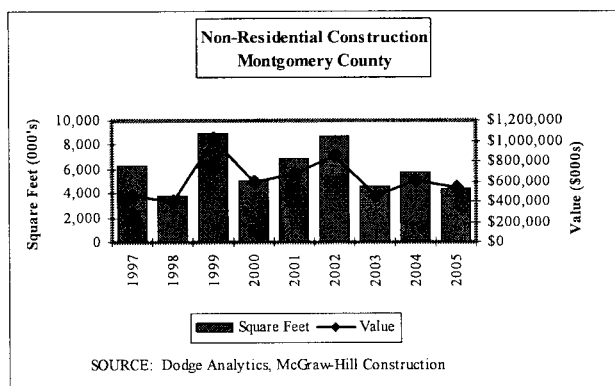
As a result of sustainable job growth and strong gains in wages and salaries, the Department of Finance assumes that total personal income will grow at an average annual rate of 4.2 percent from 2006 through 2010. This rate is slightly below the average rate of 4.5 percent between 1992 and 1997 and well below the average rate of 7.8 percent between 1998 and 2001, a period of phenomenal employment and income growth for the County. If employment grows at a stronger pace than is currently assumed, personal income may exceed the average annual rate of 4.2 percent.

Construction Activity

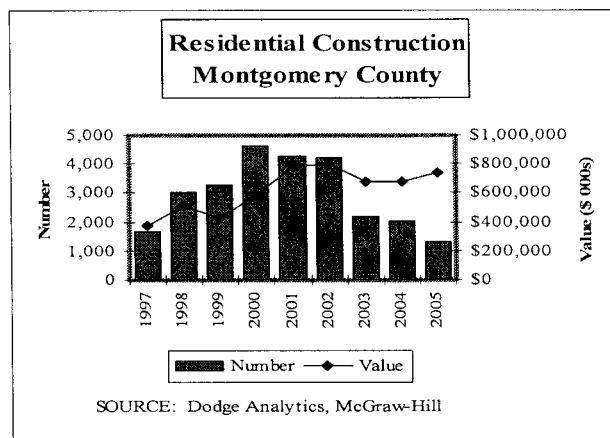
Construction is a very cyclical activity that can have a significant effect on a local economy and employment owing to secondary and tertiary effects on construction supply and services industries. Starts and permits are key indicators of the near-term economic condition of the housing industry and are considered leading indicators for the local economy. Of lesser note, new single-family home sales and construction outlays are important

indicators for monitoring the level of current investment activity. Construction starts measure initial construction activity as opposed to construction permits, which measure planned activity. However, starts and permits closely track each other and as such, a four-month moving average provides a more reliable indicator of the housing trend compared to month-to-month changes. Construction outlays are the value of new construction put in place. In contrast to information about permits and starts, outlays refer to actual construction rather than planned (permits) or initiated (starts) activity. The primary source of such data is McGraw-Hill Construction.

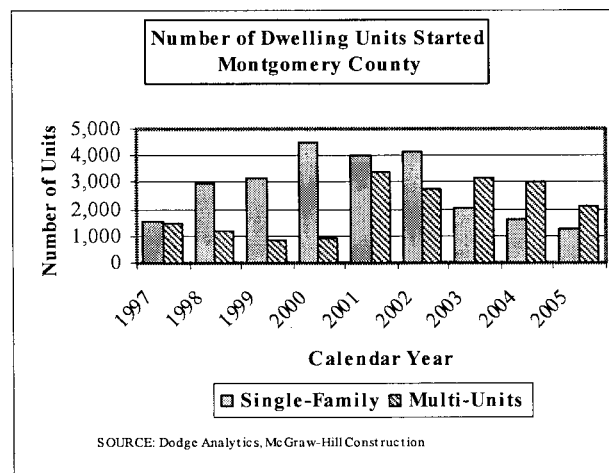
The amount of square footage added to non-residential property declined 22.5 percent in 2005 from 5.7 million square feet to 4.4 million square feet, while the value of new construction in the County decreased 10.4 percent. Additions of square footage by commercial property were down 43.5 percent and represented 58.8 percent of the added non-residential capacity. Most of that percentage decrease occurred among office and bank buildings (↓83.3%) while stores and food services experienced the second largest decline (↓60.3%). With the decline in the rate of office and bank building construction, vacancy rates in the County improved during 2005 from a high of 10.3 percent in March to 7.4 percent in December, which was below the region's rate of 7.9 percent. That vacancy rate reflects an inventory of 2.1 million square feet of vacant office space (Class A properties). Fairfax County had a vacancy rate of 8.5 percent with 5.3 million square feet of vacant office space, the City of Alexandria and Arlington County had a combined vacancy rate of 9.4 percent with 2.5 million square feet of vacant office space, and the District of Columbia had a vacancy rate of 6.5 percent with 4.3 million square feet of vacant office space.



While the number of new residential projects declined (↓35.1%), the total value of new construction increased 9.6 percent. These diverging trends reflect the sharp jump in construction costs stemming from both labor and materials. As a result, the average cost per square foot increased from \$80 in 2004 to \$125 per square foot in 2005.



Based on data provided by McGraw-Hill Construction, the number of new single-family houses built in Montgomery County fell sharply from a little over 1,640 units in 2004 to 1,250 in 2005 (↓23.9%) and the number of multi-family units declined from approximately 3,050 units in 2004 to slightly above 2,100 units (↓30.3%).

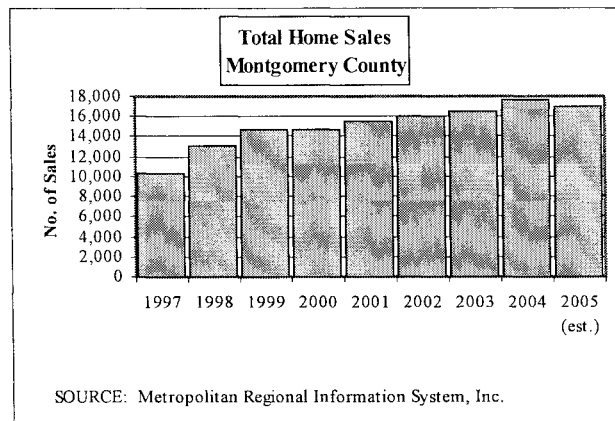


The weak growth in the number of new residential starts is not enough to match the modest growth in the formation of households which would require an additional 4,000 to 5,000 units annually between 2006 and 2012. Maryland-National Capital Park and Planning Commission (M-NCPPC) estimates that the number of households in the County will increase 1.2 percent annually over the next three years comparable to the late 1990s through 2004.

Residential Real Estate

The housing market in Montgomery County continues to be a remarkable story. When the national economy was experiencing a recession and weak recovery and subsequent expansion during the past five years, the housing market in Montgomery County experienced average annual growth of 2.5 percent in sales and an average annual price appreciation of 15.4 percent. However, because of the decline in homes sales beginning in June, the sale of homes in the County decreased an

estimated 4.2 percent for the year, the first such decline in over eight years. This follows 2004 when housing sales increased 7.4 percent and average prices increased 18.3 percent.



Retail Sales

Using sales tax receipts as a measure of the level of retail sales for the County, retail sales increased 5.0 percent in 2005 compared to 6.7 percent in 2004. The sale of nondurable goods, which includes food and beverage, apparel, general merchandise, and utilities and transportation, increased 5.8 percent while purchases of durable goods were up only 1.2 percent.

Sales of food (↑7.6%) and general merchandise (↑5.3%) led purchases of nondurable goods in 2005. Sales of building and industrial supplies (↑11.2%) led purchases of durable goods. Sales of hardware, machinery and equipment; and furniture and appliances were off 11.8 percent and 5.7 percent, respectively, compared to 2004.

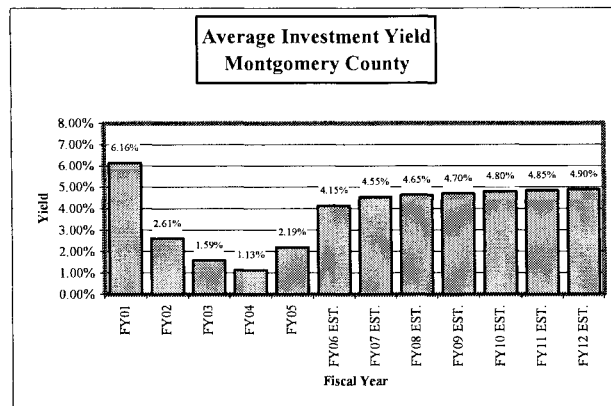
Consumer Prices and Inflation

As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington-Baltimore consolidated metropolitan statistical area was slightly above the national average in 2005. Overall consumer prices were up 4.0 percent in the region, based on the latest data available compared to 2.9 percent in 2003, and 2.8 percent in 2004. The Department of Finance assumes that inflation will continue to retreat from its expected high of 4.0 percent to 3.0 percent in 2006 and below the 3 percent threshold over the following six years with an average inflation rate of 2.7 percent.

While overall consumer prices increased largely due to energy prices, the "core" inflation rate, which is the CPI excluding the volatile food and energy prices, increased 3.2 percent during the first eleven months of 2005. That rate was significantly higher compared to the rate of 1.8 percent in 2004 and 2.6 percent during 2003.

Interest Rates

The Federal Reserve Board through its Federal Open Market Committee (FOMC) has raised the target rate on federal funds at each of its last fourteen meetings from 1.0 percent to 4.5 percent on January 31, 2006. Because of the FOMC's measured policy of 25-basis point increases, the investment yield on short-term financial instruments has reflected such changes in the federal funds rate. As such, the Department of Finance assumes that yields on the County's short-term money market instruments will increase steadily from 4.15 percent in FY06, to 4.55 percent in FY07, and 4.90 percent by FY12.



REVENUE SOURCES

The major revenue sources for all County funds of the Operating Budget and the Public Services Program are described below. Revenue sources which fund department and agency budgets are included in the respective budget presentations. Six-year projections of revenues and resources available for allocation are made for all County funds. This section displays projections of total revenues available for the tax supported portion of the program. Tax supported funds are those funds subject to the Spending Affordability Guideline (SAG) limitations. The SAG limitations were designed and intended to provide guidance prior to the preparation of the recommended budget as to the level of expenditure that is affordable based on the latest revenue estimates.

The PSP also includes multi-year projections of non-tax supported funds. These funds represent another type of financial burden on households and businesses and, therefore, should be considered in determining the "affordability" of all services that affect most of the County's population. Projections for non-tax supported funds within County government are presented in the budget section for each of those funds. A proposed Taxes and User Charges for an Average Homeowner chart displays the total burden on the average household taxpayer and business including solid waste and water and sewer charges. This chart is found at the end of the chapter.

IMPACT ON REVENUES AND THE CAPITAL BUDGET

The use of resources represented in this section includes appropriations to the Operating Funds of the various agencies of the County as well as other resource requirements, such as current revenue funding of the Capital Budget, Debt Service, and Fund Balance (operating margin). These other uses, commonly called "Non-Agency Uses of Resources," affect the total level of resources available for allocation to agency programs. Some of these factors are determined by County policy; others depend, in part, on actual revenue receipts and expenditure patterns.

The level of PSP-related spending indirectly impacts the local economy and, hence, the level of County revenues. However, the effect on revenues from expenditures of the Executive's Recommended Operating Budget and PSP are expected to be minimal. The PSP also impacts revenues available to fund the Capital Budget. The revenue projections included in this section subtract projected uses of current revenues for both debt eligible and non-debt eligible capital investments. Therefore, the Executive's Recommended Operating Budget and PSP provide the allocations of annual resources to the Capital Budget as planned for in the County Executive's Recommended FY07-12 CIP (as of January 12, 2006). These allocations will vary because of adjustments to current revenues for the CIP as part of the Executive's Recommended Operating Budget.

Prior Year Fund Balance

The prior year fund balance for the previous fiscal year is the audited FY05 closing fund balance for all tax supported funds. The current year fund balance results from an analysis of revenues and expenditures for the balance of the fiscal year. Prior year fund balance for future fiscal years is assumed to equal the target fund balance for the preceding year.

Net Transfers

Net transfers are the net of transfers between all tax supported and non-tax supported funds in all agencies. Usually, the largest single items are the earnings transfer from the Liquor Control Fund to the General Fund and the transfers for indirect costs from the non-tax supported funds. These are offset in part by transfers to non-tax supported funds, the largest of which is the transfer from the General Fund to Montgomery Housing Initiative to support the Executive's housing policy. The payment from the General Fund to the Solid Waste Disposal Fund for disposal of solid waste collected at County facilities is the next largest transfer to a non-tax supported fund. The level of transfers is an estimate based on individual estimates of component transfers.

Debt Service Obligations

Debt service estimates are those made to support the County Executive's Recommended FY07-12 Capital Improvements Program (as of January 12, 2006). Debt service obligations over the six years are based on servicing debt issued to fund planned capital projects, as well as amounts necessary for long-term leases. Debt service requirements have the single largest impact on the Operating Budget/Public Services Program by the Capital Improvements Program. The Charter-required CIP contains a plan or schedule of project expenditures for schools, transportation, and infrastructure modernization. Approximately 42 percent of the CIP is funded with G.O. bonds. Each G.O. bond issue used to fund the CIP translates to a draw against the Operating Budget each year for 20 years. Debt requirements for past and future G.O. bond issues are calculated each fiscal year, and provision for the payment of Debt Service is included as part of the annual estimation of resources available for other Operating Budget requirements. As Debt Service grows over the years, increased pressures are placed on other PSP programs competing for scarce resources.

In accordance with the County's Fiscal Policy, these obligations are expected to stay manageable, representing less than 10.0 percent of General Fund revenues. Maintaining this guideline ensures that taxpayer resources are not overextended during fiscal downturns and that services are not reduced over time due to increased Debt Service burdens.

The State authorizes borrowing of funds and issuance of bonds up to a maximum of 6.0 percent of the assessed valuation of all real property and 15.0 percent of the assessed value of all personal property within the County. The County's outstanding G.O. debt plus the Maryland Industrial and Commercial Redevelopment Fund (MICRF) loan, as of June 30, 2005, is 1.4 percent of assessed value, well within the legal debt limit and safely within the County's financial capabilities.

CIP Current Revenue and PAYGO

Estimates of transfers of current revenue and PAYGO to the CIP are based on the most current County Executive recommendations for the Capital Budget and CIP. These estimates are based on programmed current revenue and PAYGO funding in the six years, as well as additional current revenue amounts allocated to the CIP for future projects and inflation.

Revenue Stabilization

Mandatory contributions to the Revenue Stabilization Fund (Rainy Day Fund) are made if certain revenues increase above their budgeted projections and/or if projected revenue growth is stronger than in a selected historical period. Revenues include County Income Tax, Transfer Tax, Recordation Tax, and General Fund Investment Income. The projection assumes that a

mandatory transfer of \$6.6 million will be made to this fund at the end of FY06 reaching a fund balance of \$107.8 million, which is the result of higher than previously estimated income tax revenues and transfer and recordation taxes. However, the projection for FY07 assumes that no mandatory transfer will be made to this fund at the end of the fiscal year. Because of higher than expected revenue collections in eight of the nine previous fiscal years (FY97-FY02 and FY04-FY05), in addition to the two discretionary transfers made in FY95 (\$10.0 million) and FY96 (\$4.5 million), the Revenue Stabilization Fund reached its maximum allowable fund size of \$101.2 million at the close of FY05 with a mandatory contribution of \$5.2 million.

Since the fund has reached more than half of its maximum fund size, interest earned from the fund must fund PAYGO expenditures in the CIP fund. The estimate of the interest in FY06 is \$4.2 million. A similar funding of PAYGO from earned interest was made in FY02 (\$2.2 million), FY03 (\$1.3 million), FY04 (\$1.1 million), and FY05 (\$2.4 million). Due to a projected growth in revenues, the maximum allowable fund size is projected at \$149.9 million by FY12. However, barring future discretionary or mandatory contributions to the fund, the fund will remain at the current \$107.8 million level through FY12.

Other Uses

This category is used to set aside funds for such items as possible legal settlement payments and other special circumstances such as set-aside of revenues to fund future years.

Reserves

The County will maintain total reserves for tax supported funds that include both an operating margin reserve and the Revenue Stabilization Fund (or "Rainy Day Fund"). For tax supported funds, the budgeted total reserve of the operating margin and the Revenue Stabilization Fund should be at least 6.0 percent of total resources (i.e., revenues, transfers, prior year undesignated and designated fund balance).

REVENUE ASSUMPTIONS

Projections for revenues are included in six-year schedules for County Government Special Funds and for Montgomery College, M-NCPPC, and WSSC in the relevant sections of this document. See the MCPS Budget Document for six-year projections of MCPS funds. Projections for revenues funding County government appropriations are provided to the Council and public as fiscal projections. Such projections are based on estimates of County income from its own sources such as taxes, user fees, charges, and fines, as well as expectations of other assistance from the State and Federal government. The most likely economic, demographic, and governmental policy assumptions that will cause a change in revenue projections are included in this section.

TAX REVENUES

Tax supported revenues come from a number of sources including but not limited to property and income taxes, real estate transfer and recordation taxes, intergovernmental revenues, service charges, fees and licenses, college tuition, and investment income. In order of magnitude, however, the property tax and income tax are the most important with 43.7 percent and 41.1 percent, of the estimated total tax supported revenues in FY07. The third category is the combined real estate transfer and recordation taxes with an 8.5 percent share. Income and transfer and recordation taxes are the most sensitive to economic and, increasingly, financial market conditions. By contrast, the property tax exhibits the least volatility.

In the late 1990s and early 2000s, the property tax stood in the shadow of the income tax in terms of growth. In fact, in FY99 measured by General Fund revenues, the income tax surpassed the property tax for the first time as the largest tax source in the County. At the time, the low single-digit growth in property tax revenue was dwarfed by the double-digit growth in the income tax. But with all this explosive growth in the income tax also came considerable volatility. For that reason, it was a welcome sign to observe that the property tax – the most stable of all revenue sources – gained considerable ground at a time that the income tax experienced considerable weakness. From a tax policy point of view, FY07 marks the fourth consecutive year in which the property tax maintains its prominent position with growth in revenue – both in absolute and relative terms – well above the income tax.

Property Tax

Total estimated FY07 property tax revenues of \$1,148.9 million are 3.9 percent above the revised FY06 estimate. Property tax revenues for FY07 are estimated based on the recommendation by the County Executive of a 9.5-cent reduction in the property tax rate to help alleviate the tax burden on the County's residents and comply with the Charter Limit in FY07. The recommended schedule reflects a 9.5-cent reduction from the Levy Year 2005 schedule. The general countywide rate assumed for FY07 is \$0.584 per \$100 of assessed real property, while a rate of \$1.460 per \$100 is levied on personal property. In addition to the general countywide tax rate, there are special district area tax rates. The 1990 Charter amendment (FIT) limits the growth in property tax revenues to the sum of the previous year's estimated revenue, increased by the rate of inflation, and an amount based on the value of new construction and other minor factors. This Charter limit, however, may be overridden by a super-majority vote of seven of the nine members of the County Council. Growth in the previous calendar year's CPI-U for the Washington-Baltimore Consolidated Metropolitan Statistical Area is used to measure inflation. Since reassessments are growing faster than the rate of inflation for the third consecutive year, current rates generate revenues that are \$127.9 million above the

Charter limit for FY07. The recommended 9.5 cent rate cut reduces property tax revenues in line with the Charter Limit.

The Countywide total property tax assessable base is estimated to increase 13.1 percent from a revised \$114.3 billion in FY06 to \$129.3 billion in FY07. The base is made up of real property and personal property. In FY07, the Department of Finance estimates real property of approximately \$125.4 billion with the remaining \$4.0 billion in personal property. The growth in the property base has fluctuated significantly over time, with an average of 10.2 percent growth during the late 1980s and early 1990s, followed by considerable deceleration with base growth generally close to an average 3.0 percent between FY93 and FY99. In FY00, the total property tax base increased 2.8 percent and since that time has increased steadily reaching 9.6 percent by FY05. Changes to the real property base are a result of additions to the base (i.e., new construction) and changes to the existing base (i.e., reassessments of existing properties). Reflecting changes in new construction and a dramatic pick-up in reassessments, the real property tax base is expected to grow a revised 12.3 percent in FY06 and is projected to grow 13.5 percent in FY07 – the largest growth in over 19 years.

The real property base is divided into three groups based on their geographic location in the County. Each group is reassessed tri-annually by the State Department of Assessments and Taxation (SDAT) which has the responsibility for assessing properties in Maryland. The amount of the change in the established market value (full cash value) of one-third of the properties reassessed each year is phased in over a three-year period. Declines in assessed values, however, are effective in the first year. Because of the different phase-ins of increases and declines during periods of modest reassessment growth, the reassessment cycle for a particular group may produce either no growth or a decline in the first year, followed by reassessment gains in the two subsequent years. Growth in reassessments for Group III will increase 63.3 percent (70.4 percent for residential properties and 46.7 percent for commercial properties) in FY07 which follows an increase of 65.0 percent (69.3 percent for residential properties and 49.7 percent for commercial properties) for Group II in FY06. This also follows a 36.3 percent increase (47.0 percent for residential properties and 16.1 percent for commercial properties) for Group III in FY04 and 51.8 percent (55.5 percent for residential properties and 26.1 percent for commercial properties) for Group I in FY05. This growth shows a sharp improvement in recent years from most of the 1990s and early 2000s, and now exceeds the high double-digit growth in reassessments observed during the late 1980s.

There is a ten percent annual assessment growth limitation for residential property that is owner-occupied. As a result of this “homestead tax credit,” taxable reassessments in Montgomery County may not grow more than ten percent

in any one year. Due to strong reassessment growth in the late 1980s and early 1990s, this assessment limitation credit topped the \$2.5 billion mark in FY92 (using the current 100 percent full cash value method). As growth in home prices decelerated in subsequent years, reassessments either declined or grew less rapidly. The homestead tax credit reflects this trend, with the total credit dropping steadily to \$48 million in FY01. However, as the real estate market rebounded in the County starting in the late 1990s, home prices rose at a faster clip causing a sharp increase in reassessments. This is reflected in an increase in the credit to \$1.33 billion in FY04, \$3.80 billion in FY05, \$8.47 billion in FY06, and an estimated \$15.40 billion in FY07, which is an all time record. The outlook for the remainder of the six-year forecast period is for the homestead tax credit to continue the explosive trend through FY09 then moderate by FY12.

Decreases in the personal property base beginning in FY04 reflect the residual effects of weak labor market conditions that occurred between calendar year 2001 and 2004 and as such resulted in a lower number of new businesses and associated investments, and exacerbated by enacted tax law changes, including exemptions (e.g., manufacturing, Research and Development, and certain computer software) and depreciation rules (e.g., for computer equipment). Personal property includes public utility equipment, business furniture and equipment, and computers. According to SDAT, the corporate personal property base is projected to decrease 0.4 percent in FY07. The public utility portion, which accounts for 39.4 percent of the personal property base, is projected to decline 1.2 percent in FY07. The public utility personal property base, which accounted for slightly less than half prior to the electric deregulation process, now exempts 50 percent of personal property used to generate electricity. The 50 percent exemption was phased in during FY01 (25 percent) and completed in FY02 (50 percent), and exempts an estimated \$124 million in personal property. In order to prevent a revenue shortfall, the Maryland Legislature provides for an annual grant equal to the amount lost in revenues, which is expected to be \$2.8 million in Montgomery County in FY06.

The real property base of \$125.4 billion in FY07 is estimated to grow \$15.0 billion compared to a revised FY06 estimate, the result of \$1.5 billion in additions to the base from new construction, and \$20.4 billion in reassessments, offset by a \$6.9 billion rise in the homestead tax credit. The level of new reassessments is a near-term record high in the County and represents substantial growth in the property tax base. Construction is projected to increased modestly in FY07, then is expected to grow to well above \$2.1 billion by FY12. Similarly, reassessments remain the largest contributor to the base growth during this six-year forecast period. Reflecting a phase-in of the 63.3 percent jump for Group III, an equally robust 45.0 percent reassessment growth is expected for Group I in FY08, a 20.0 percent growth for Group II in FY08, and 14.0 percent for Group III. As a

result of these trends, the total assessable base is projected to steadily grow to 13.1 percent by FY08 before moderating to a growth rate of 9.4 percent by FY12.

Income Tax

Estimated FY07 income tax revenues of \$1,079.4 million are 4.5 percent above the revised FY06 estimate. Enacted in 1967 as a State-collected local surtax on the State income tax, the Montgomery County local rate began at 20 percent in 1967, increased to 35 percent in 1968, 45 percent in 1969, and was 50 percent of the State tax from 1970 through 1991. The local rate was increased from 50 percent to 55 percent for calendar 1992 and increased to 60 percent for calendar 1993. Effective tax year 1998, the State of Maryland enacted a five-year phased-in ten percent income tax cut, which results from a doubling of the personal exemption to \$2,400 and a drop in the tax rate from 5.0 percent to 4.75 percent. Due to a de-coupling of State and local income tax base calculations in 1998, income tax revenues for the counties and the City of Baltimore are not affected by this change. However, since tax liability for local tax computation purposes is different from the tax liability computation for State taxes, it required taxpayers to compute the 1998 local tax using the pre-1998 State rate and exemption schedules. Due to the increased complexity of computing the 1998 tax, the Maryland State Comptroller proposed an alternative method - one that simplified the tax return and maintained revenue neutrality for local jurisdictions. This new method computes a local tax rate, applied to Maryland State taxable income. Since local jurisdictions had different piggyback tax rates, it also required different income tax rate schedules for each local jurisdiction. In addition, annual increases in exemption amount reduced State taxable income through tax year 2002 - the year in which the State's tax relief program was fully phased in. Since State taxable income declined over the period 1999 through 2002, in order to maintain revenue neutrality, the local income tax rate increased slightly during that period. In 2002, once the exemptions were phased in, the local income tax rate remained unchanged. This method was enacted by the State Legislature and became effective tax year 1999. Montgomery County adopted a local income tax rate of 3.01 percent for tax year 1999. Note that, under the pre-1998 State tax relief scenario, the Montgomery County income tax rate would have been 3.00 percent (60 percent piggyback tax based on the State's 5.0 percent income tax rate).

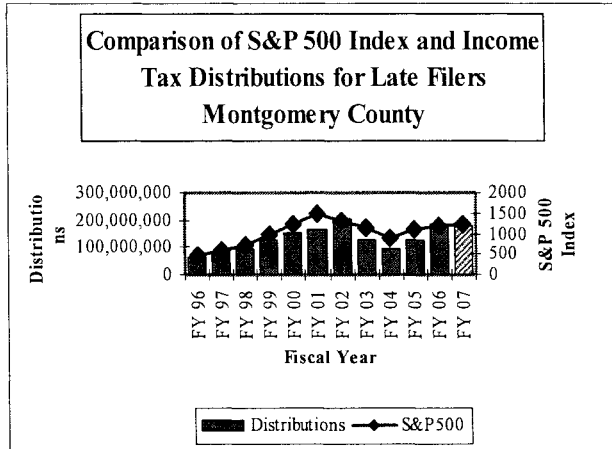
Effective tax year 2000, the County reduced the "piggyback" tax rate from 60 percent to 58 percent. As a result of this change, the new local income tax rate schedule became: 2.90 percent (2000), 2.92 percent (2001), and 2.95 percent (2002 and 2003). Effective with tax year 2004, the County Council increased the rate to the maximum allowed under State law (3.20 percent).

Total income tax revenues are estimated at \$1,079.4 million in FY07, which reflects a 4.5 percent increase from the revised FY06 estimate. Growth slowed during

the early part of the decade reflecting moderation in the trend. For example, adjusted for the rate cut, the percent change in withholdings and estimated payments declined steadily from a peak of 12.4 percent in FY00 to -1.8 percent in FY03. However, since FY03 withholdings and estimated payments rebounded with an increase of 4.9 percent in FY04 and 7.3 percent in FY05.

Since, during any one fiscal year, the County receives income tax distributions pertaining to, at least, three different calendar tax years, it is important to analyze the data on a calendar year basis. During the 1990s, average annual tax liability in the County grew considerably slower in the first half (7.5 percent) of the decade compared to the second half (10.4 percent). During the second half of the 1990s, quarterly income tax distributions grew rapidly, with ten percent growth rates in the years 1997 through 1999. However, such growth decelerated rapidly to only 6.8 percent in 2000, 1.1 percent in 2001, 1.4 percent in 2002, and 0.3 percent in 2003. However, with the County Council raising the local tax rate to 3.2 percent effective tax year 2004, revenues increased 19.9 percent but decelerated to 5.0 percent in 2005. In addition to the quarterly distributions that represent withholdings and estimated payments, receipts from late filers who had underestimated their tax liability jumped to unprecedented levels during the late 1990s and 2000. For example, while a total of only \$37 million was received for tax year 1990, that amount gradually increased and peaked at \$204 million in 2000, but fell sharply in the two subsequent years to \$98 million by 2002. Since that time revenues from later filers have rebounded dramatically reaching \$127 million in 2003 and \$183 million in 2004. As taxpayers underestimate their tax liability from, generally, non-employment related earnings, additional payments are made when tax returns are filed. Taxpayers with more complicated tax returns, reflecting significant non-employment related earnings such as stock options and capital gains (from either the stock market or real estate), increasingly file for an extension. Since taxpayers may file for two extensions (August 15th and October 15th), income tax receipts from late filers are distributed to the County in September and January. However, recent federal tax law now allows a later filer to get a six-month extension rather than a four month extension with a request for the extra two months. Hence, the Department of Finance assumes for FY07 and beyond that the bulk of revenues from late filers will occur in the January distribution rather than in the previous two distributions of September and January. These late filer distributions reflect significant shifts in one-time tax liability and, thus, represent the most volatile component of the income tax. Even though, in aggregate, this tax liability may continue to shift over a longer period of time, the shift remains one-time in the sense that tax liability changes as a result of the one-time exercise of a stock option or sale of stock at a price that is different from the original issuance or purchase and more recently gains from the home sales. Once that action has been taken, gains (or losses) are recognized, with no addition to future tax liability. By contrast, employment growth is an

addition to the base that increases tax liability through wage growth in future years and is, thus, a more predictable indicator of future revenue growth.



Transfer and Recordation Taxes

Estimated FY07 revenues of \$225.7 million, which excludes the school CIP portion, are 5.3 percent below the revised FY06 estimate. This reflects an FY07 estimate of \$140.6 million in the transfer tax and \$85.2 million in the recordation tax. Transfer and recordation tax revenues have fluctuated greatly over time and primarily reflect shifting trends in the real estate market. In FY05, 84 percent of transfer tax revenue came from the residential sector compared to nearly 88 percent in FY04. The transfer tax rate is generally one percent of the value of the property transferred to a new owner. This applies to both improved (i.e., building) and unimproved (i.e., land) residential and commercial properties. The recordation tax is levied when changes occur in deeds, mortgages, leases, and other contracts pertaining to the title of either real or personal property. Through FY02 the recordation tax was generally \$4.40 per \$1,000 of the value of the contract. Beginning in FY03, the recordation tax rate was raised to \$6.90 per \$1,000 of the value of the contract with the first \$50,000 of the consideration exempted from the tax for owner-occupied residential properties. The Council earmarked the revenues attributed to the rate increase for school capital programs. Generally, both transfer and recordation taxes are levied when properties are sold. In a few cases, only one of the two taxes is levied. One example is refinancing of a mortgage, in which case there may be an increase in the mortgage amount and, hence, recordation tax, but since there is no transfer of property, there is no transfer tax.

Residential transfer tax revenues are affected by the trends in real estate sales for existing and new homes. Real estate sales, in turn, are highly correlated with specific economic indicators such as growth in employment and wages and salaries, formation of households, and mortgage interest rates. The same holds true for the commercial sector, which is equally affected by business activity and

investment, office vacancy rates, and financing costs. The volatility in revenues from the transfer and recordation is best illustrated in the trend since FY99. The growth rate in the number of residential transfers slowed to 7.5 percent in FY00 when the number of residential transfers peaked at 22,000, decreased 4.5 percent in FY01 (21,005), increased 12.5 percent in FY02 (23,640), decreased 3.4 percent in FY03 (22,838), increased 9.1 percent in FY04 (24,912), and increased modestly to 3.9 percent in FY05 (25,875). While the number of residential transfers exhibited significant volatility since FY99, the recent acceleration in home prices has had a significant effect on revenues and offset the volatility in the number of transfers. Due to the strong demand for new and existing homes, property values continued to increase such that total transfer taxes from the residential sector increased 25.0 percent in FY04 and 20.3 percent in FY05.

However, recent developments in the real estate market for Montgomery County indicate a change in the number of residential transfers for FY06 and FY07. Because home sales declined 4.2 percent during calendar year 2005, most of that decline occurred during the second half of the year or the first half of fiscal year 2006. As such, the Department of Finance assumes that the number of residential transfers will decline 4.7 percent in FY06 followed by another decline of 0.8 percent in FY07. While home prices have reached double-digit rates during the past two calendar years, the potential "softening" of the real estate markets in recent months suggests that price increases will decelerate rather than decline over the next two years. Because of the assumptions by the Department of Finance of a decline in the number of transfers and a slowdown in price appreciation, revenues from the residential portion of the transfer tax are nevertheless expected to increase 6.4 percent in FY06 and 3.6 percent in FY07 — although down significantly from the double-digit rates experienced in FY04 and FY05.

At the same time that revenues from the residential portion of the transfer tax experienced significant growth since FY99, revenues from non-residential properties experienced a more medium-term cyclical pattern that began in FY99. Beginning in FY99, revenues from non-residential property declined for three consecutive years -29.1 percent in FY99, -0.7 percent in FY00 and -12.4 percent in FY01. However, based on a healthy commercial boom since FY01, non-residential transfer taxes recovered in FY02 (+10.2%), FY03 (+10.0%), FY04 (+30.9%), and FY05 (+61.2%). However, the Department of Finance assumes that the dramatic increases during the last two fiscal years are not sustainable and as such assumes that revenues will increase 14.2 percent in FY06 and decline 42.0 percent in FY07. The major reason for the slowdown in FY06 and the dramatic decline in FY07 is because of significant decline in construction of commercial space in the County over the past three years.

Recordation tax revenues generally track the trend in transfer tax revenues. More recently, the relationship

increased to approximately 99 percent of transfer tax in FY04 and declined slightly to 92 percent in FY05. Such a high percentage is due to a record high level of mortgage refinancing, which impacts the recordation tax, but not the transfer tax. Revenues from the recordation tax increased 35.7 percent in FY02, 62.9 percent in FY03 (the first year the rate increase went into affect), 32.8 percent in FY04, and 14.9 percent in FY05. The current estimate for FY06 reflects an increase less than 5.0 percent reaching an all-time high of \$91.9 million and a decline of 7.3 percent in FY07 to \$85.2 million. Yet, even with the projected decline in FY07, revenues from the recordation tax are expected to be the third highest. The combined transfer and recordation taxes are projected to reach \$225.7 million in FY07, excluding revenues for school construction, also the second highest behind the estimated \$238.3 million in FY06.

Energy Tax

Estimated FY07 revenues of \$124.4 million are 1.5 percent above the revised FY06 estimate. The fuel-energy tax is imposed on persons transmitting, distributing, manufacturing, producing, or supplying electricity, gas, steam, coal, fuel oil, or liquefied petroleum gas. Different rates apply to residential and nonresidential consumption and to the various types of energy. Effective FY04, the previous rate schedule was increased threefold by the County Council on May 14, 2003. The rate schedule was changed again on May 20, 2004, with rates increasing 52.15 percent for FY05 and thereafter. Since the rates per unit of energy consumed are fixed, collections change only with shifts in energy consumption and not due to changes in the price of the energy product. Measured by the number of units, residential usage as a share of the total has declined modestly from 49 percent in FY03 to 47 percent in FY05 with the remaining 53 percent for non-residential entities. Based on partial fiscal year data, the Department of Finance assumes that residential consumption as a percentage of total energy consumption will remain at 47 percent. Due to a different rate schedule, the share of receipts from residential users is approximately 28 percent of total collections, with the larger share received from the non-residential sector. Measured for all energy types, the two largest sources of revenues in FY05 were electricity (78 percent) and natural gas (20 percent). Since actual collections vary with weather conditions, the harsh winter weather increases usage of electricity, natural gas, and heating oil, while the milder summer weather forecasted reduces electricity usage for climate control systems. The impact of weather patterns is partly offset by an expansion of the user base with more businesses and households. With a continuation of the "mild weather" pattern for the next fiscal year, the budget estimate for FY07 is projected to increase 1.5 percent. *

Telephone Tax

Estimated FY07 revenues of \$30.2 million are 1.6 percent above the revised FY06 estimate. The

telephone tax is levied as a fixed amount per landline and per wireless line. The tax on a traditional landline is \$2.00 per month, while multiple business lines (Centrex) are taxed at \$0.20 per month. The tax rate on wireless lines is \$2.00 per month. With business expansion combined with a surge in new home sales in the County in FY00 and FY01, and an increased demand for second phone lines for computer access to the internet, collections from the telephone tax grew 12.0 percent in FY00 and 4.1 percent in FY01. With the slowdown in the local economy during FY02 and FY03 and alternative computer internet access, collections declined 5.8 percent and 8.6 percent, respectively. With the enactment of the rate increases and a modest growth in businesses and households, revenues are expected to increase 1.6 percent in FY07 to \$30.2 million primarily due to an increase in cellular telephones. Reflecting, in part, modest growth in new household and business formations, the outlook for FY08 through FY12 is for revenues from wireless communication to increase at a slower rate attributed to a deceleration in the rate of household formations and a growing saturation of the market for wireless devices while the number of landlines experience very modest growth in the near term.

Hotel/Motel Tax

Estimated FY07 revenues of \$16.9 million are 7.4 percent above the revised FY06 estimate. The hotel/motel tax is levied as a percentage of the hotel bill. The current tax rate of 7 percent in FY06 is also assumed for FY07. In FY97, the rate was increased from 5 percent to 7 percent with the increase earmarked for funding the Montgomery County Conference Center located in North Bethesda. Collections grow with the costs of hotel rooms and room supply and are affected by the hotel occupancy rate in the County. Occupancy rates in the County are generally the highest in the spring (April and May) and autumn (September and October) as tourists and schools visit the nation's capital for such events as the Cherry Blossom Festival and school trips, while organizations often schedule conferences during such periods. During peak periods, many visitors to Washington, D.C. use hotels in the County, especially those in the up-county area where rates are generally lower than in the District. Reflecting improved economic conditions during the mid and late 1990s and the presidential primaries and presidential inauguration during 2000 and early 2001, respectively, spurred both business travel and tourism, hotel occupancy rates grew from just under 67 percent in FY96 to a record high 72.3 percent in FY01. The second component – average room rate – grew 34.4 percent between FY96 and FY01 to a record \$102.60. The third component that makes up revenues – room supply – grew by five percent between FY96 and FY01. As a result total hotel revenues doubled between FY96 and FY01 to over \$13.1 million.

However, in the aftermath of the terrorist attacks on September 11, 2001, and war on terrorism, business travel and tourism were reduced significantly in the greater Washington region. In an effort to stimulate hotel

occupancy, hotels dramatically cut room rates thereby reducing revenues in FY02 by over \$2 million for a decline of 15.8 percent compared to FY01. The rebound in hotel occupancy during FY04 and an increase in the average room rate in FY05 allowed hotels to recoup some of the losses made during FY02 and FY03. The revised estimated revenue for FY06 is solely attributed to an increase in the average room rate. Occupancy rates are expected to increase slightly to 65 percent in FY07, attributed to an increase in estimated demand. Room rates are expected to climb to \$120 as a countywide average, resulting in a 7.4 percent growth in the hotel/motel tax in FY07 which follows a revised estimate of 11.4 percent growth in FY06. Long-term estimates are tied to projected room occupancy and rate increases, partially reflecting the forecast of inflation and population growth that result in annual projected revenues through FY12 in the \$18.1 million and \$22.6 million range. The Montgomery County Conference and Visitors Bureau is funded, in part, through a 3.5 percent share of the hotel/motel tax.

Admissions Tax

Estimated FY07 revenues of \$2.8 million are 4.3 percent above the revised FY06 estimate. Admissions and amusement taxes are State-administered local taxes on the gross receipts of various categories of amusement, recreation, and sports activities. Taxpayers are required to file a return and pay the tax monthly while the County receives quarterly distributions of the receipts from the State. Montgomery County levies a seven percent tax, except for categories subject to State sales and use tax, where the rate is five percent. Such categories include rentals of athletic equipment, boats, golf carts, skates, skis, horses; and sales related to entertainment. Gross receipts are exempt from the County tax when a Municipal admissions and amusement tax is in effect. For FY05, coin and non-coin-operated amusement devices account for 21 percent of total collections, while other major categories include golf green fees, driving ranges and golf cart rentals (29 percent), motion picture theaters (32 percent), athletic events (e.g., the Booz Allen Classic Golf Tournament), refreshments and merchandise sold where there is entertainment, and athletic facilities or equipment. Revenue growth for the period FY08 through FY12 is expected to range between 4.0 percent and 4.4 percent, reflecting modest population growth and rising inflation.

NON-TAX REVENUES

Non-tax revenues throughout all tax supported funds (excluding Enterprise Funds, such as Permitting Services, Parking Districts, Solid Waste Disposal, and Solid Waste Collection Funds) are estimated at \$703.4 million in FY07. This is a \$56.6 million increase, or 8.8 percent, from the revised FY06 estimate, reflecting a 16.5 percent increase in public school funding. Non-tax revenues include: intergovernmental aid; investment income; licenses and permits; user fees, fines, and forfeitures; and

miscellaneous revenues, the largest of which is rental property income.

General Intergovernmental Aid

General Intergovernmental Aid is received from the State or Federal governments as general aid for certain purposes, not tied, like grants, to particular expenditures. The majority of this money comes from the State based on particular formulas set in law. Total aid is specified in the Governor's annual budget. Since the final results are not known until the General Assembly session is completed and the State budget adopted, estimates in the March 15 County Executive Recommended Public Services Program are, generally, based on the Governor's budget estimates for FY07, unless those estimates assume a change in existing law. If additional information on the State budget is available to the Executive, this information will be incorporated into the budgeted projection of State aid. For future years, it is difficult to know confidently how State aid policy may change. The projection does not assume that State aid formulas will necessarily remain in place. It is assumed that State aid will increase with either the projected rate of inflation, by an amount based on the projected increase in County population, or a combination of those two factors. The Recommended Budget for FY07 assumes \$48.6 million, or 9.9 percent, increase in Intergovernmental Aid above the revised FY06 estimate, of which 64.9 percent is allocated to the Montgomery County Public Schools, 7.5 percent to Highway User Revenue, 4.6 percent to Mass Transit, and 4.5 percent to Montgomery College. The increase is attributed to an estimated \$49.8 million increase to public schools. Total Intergovernmental Aid is estimated to total \$541.2 million in FY07 or 76.9 percent of all non-tax revenues.

Licenses and Permits

Licenses and permits include General Fund business licenses (primarily public health, traders, and liquor licenses) and non-business licenses (primarily marriage licenses and Clerk of the Court business licenses). Licenses and permits in the Permitting Services Enterprise Fund, which include building, electrical, and sediment control permits, are Enterprise Funds and thus not included in tax supported projections. The Recommended Budget for FY07 assumes a 10.0 percent decline over the revised projections for FY06, resulting in \$10.7 million in available resources in FY07.

Charges for Services (User Fees)

Excluding intergovernmental revenues to Montgomery County public schools and college tuition, charges for services, or user fees, is the largest non-tax revenue source, especially when Enterprise Funds such as Solid Waste Collection, Solid Waste Disposal, Liquor Fund, M-NCPPC user fees, MCPS food service sales, and parking revenues are considered. Tax supported fee revenues come primarily from fees imposed on the recipients of certain County services including mass transit, human services,

and recreation services and are included in the tax supported funds. Without rate increases, these revenues tend to show little growth although there is some variance because of weather, population changes, the economy, and changes in commuting patterns. However, it is the policy of the County to increase rates or fees to keep up with inflation. It is not always possible to achieve this goal for each fee, either because of market competition or because prices normally rise in rounded steps. The long-term estimates assume that rates will rise. The Recommended Budget for FY07 assumes 4.5 percent growth over the revised projections for FY06, resulting in \$46.3 million in available resources in FY07.

Fines and Forfeitures

Revenues from fines and forfeitures relate primarily to photo red light citations, and library and parking fines (excluding the County's four Parking Districts). The Recommended Budget for FY07 assumes that fines and forfeitures will increase 31.1 percent over the revised estimates for FY06, resulting in \$13.7 million in available resources in FY07.

College Tuition

Although College tuition is no longer included in the County Council Spending Affordability Guideline Limits (SAG), it remains in the tax supported College Current Fund. Calculation of the aggregate operating budget is under the SAG Limits. Tuition revenue depends on the number of registered students and the tuition rate. The Executive recommends sufficient funding to the College to maintain the current per semester hour tuition rate. This is the first time since 1984 that tuition and fees will not increase for a new academic year.

Investment Income

Investment income includes the County's pooled investment and non-pooled investment and interest income of other County agencies and funds. The County operates an investment pool directed by an investment manager who invests all County funds using an approved, prudent investment policy as a guide. The pool includes funds from tax supported funds as well as from Enterprise Funds, municipal taxing districts, and other governmental agencies. Two major factors determine pooled investment income: (1) the average daily investment balance which is affected by the level of revenues and expenditures, fund balances, and the timing of bond and commercial paper issues; and (2) the average yield percentage which reflects short-term interest rates and may vary considerably during the year.

The revised FY06 estimate of pooled investment income of \$32.9 million assumes a 4.15 percent yield on equity and an average daily balance of \$800 million. The FY07 projected estimate of \$37.8 million assumes a modest improvement to a 4.55 percent yield and an average daily balance of \$836 million. Reflecting robust growth in revenues in the second half of the 1990s, the amount of

available funds for investments, measured by the daily cash balance, doubled between FY93 (\$437 million) and FY00 (\$890 million). As a result of weak economic and revenue conditions starting in 2001, the cash balance declined from \$890 million to \$566 million between FY00 and FY04. Because of the improvement in economic and revenue outlook, the cash balance rebounded to \$710 million in FY05. Using current revenue projections, the daily cash balance is expected to grow from \$836 million in FY07 to \$1,012 million by FY12. Yields have fluctuated significantly over time. When the Fed tightened monetary policy in 1999 and 2000, yields jumped to 6.7 percent in the latter part of 2000 – a ten-year high. On a fiscal year basis, yield rates increased to 6.2 percent in FY01. However, as the economy weakened significantly in calendar year 2001, the Federal Open Market Committee (FOMC) of the Federal Reserve initiated an aggressive monetary policy and cut the federal fund interest rate 13 times, reducing the rate from 6.5 percent at the onset of 2001 to just 1.00 percent by June 2003 – the lowest level since 1958. Not surprisingly, investment income yields followed interest rates on their downward trend, with the yield falling from 6.6 percent in December 2000 to 1.5 percent in December 2002. This 84 percent drop (or 554 basis points) in yield is the main reason for the 87 percent drop in investment income between FY00 and FY04. However, beginning in June 2004, the FOMC began to raise interest rates at a measured pace such that between June 2004 and January 2006, the target rate on federal funds increased from 1.0 percent to 4.5 percent. As a result, yields are expected to climb to 4.15 percent by the end of FY06 and to 4.90 percent by FY12.

Other Miscellaneous

The County receives miscellaneous income from a variety of sources, the largest of which are rental income for the use of County property, prior year encumbrance liquidations, abandoned vehicle auctions, and net proceeds from the Conference Center. These four categories make up 76.5 percent of the total \$10.1 million projected for FY07. The projection for subsequent fiscal years assumes growth at the rate of inflation.

DEMOGRAPHIC AND PLANNING INDICATORS	TRENDS AND PROJECTIONS										
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12			
POPULATION	942,000	953,000	964,000	976,000	988,000	1,000,000	1,008,000	1,016,000			
Annual Increase	13.00%	11.00%	11,000	12,000	12,000	12,000	8,000	8,000			
Population Growth Since 1998	11.8%	13.1%	14.4%	15.8%	17.2%	18.6%	19.6%	20.5%			
County Resident Births (Prior Calendar Year)	13,546	13,600	13,700	13,800	13,900	14,000	14,290	14,440			
HOUSEHOLDS	347,000	351,000	356,000	361,000	366,000	370,000	374,000	378,000			
Household Annual Growth (%)	1.5%	1.2%	1.4%	1.4%	1.4%	1.1%	1.1%	1.1%			
Household Growth Since 1998	10.2%	11.4%	13.0%	14.6%	16.2%	17.5%	18.7%	20.0%			
Household Growth Since 1992	19.2%	20.5%	22.3%	24.0%	25.7%	27.1%	28.4%	29.8%			
Household Size	2.71	2.72	2.71	2.70	2.70	2.70	2.70	2.69			
RESIDENT EMPLOYMENT (Jan = Calendar Year)	491,608	500,000	506,000	512,100	518,200	523,900	529,700	535,500			
Resident Employment Annual Growth (%)	2.1%	1.7%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%			
Resident Employment Growth Since 1998	7.6%	9.4%	10.8%	12.1%	13.4%	14.7%	15.9%	17.2%			
Resident Employment Per Household	1.42	1.42	1.42	1.42	1.42	1.42	1.42	1.42			
Jobs in County	500,000	509,000	518,000	527,000	536,000	545,000	552,000	559,000			
PERSONAL INCOME (\$ Millions)	\$55,800	\$58,900	\$61,800	\$64,600	\$67,300	\$70,000	\$72,800	\$75,800			
Per Capita Personal Income	\$59,200	\$61,800	\$64,100	\$66,200	\$68,100	\$70,000	\$72,200	\$74,600			
Annual Growth (%)	5.3%	4.4%	3.7%	3.3%	2.9%	2.8%	3.1%	3.3%			
CONSUMER PRICE INDEX (CPI) - Fiscal Year	3.5%	3.7%	2.6%	2.6%	2.7%	2.7%	2.7%	2.7%			
Inflation Growth (Fiscal Year) Since Nov. 1998 (%)	236.5%	258.8%	150.0%	150.0%	159.6%	159.6%	159.6%	159.6%			
CONSUMER PRICE INDEX (CPI) - Calendar Year (%)	4.0%	3.0%	2.8%	2.7%	2.7%	2.6%	2.6%	2.6%			
ASSESSABLE TAX BASE (\$ Millions)	\$102,184	\$114,314	\$129,310	\$146,185	\$162,999	\$178,930	\$196,355	\$214,823			
Annual Growth (%)	9.6%	11.9%	13.1%	13.1%	11.5%	9.8%	9.7%	9.4%			
Growth of Base Since 1992 (%)	70.8%	91.1%	116.2%	144.4%	172.5%	199.1%	228.2%	259.1%			
Growth of Base Since 1998 (%)	42.2%	59.1%	80.0%	103.5%	126.9%	149.1%	173.3%	199.0%			
INVESTMENT INCOME YIELD (%)	2.19%	4.15%	4.55%	4.65%	4.70%	4.80%	4.85%	4.90%			
MCPS ENROLLMENT (Sept = Calendar Year)	139,337	139,387	139,936	139,720	139,556	139,663	140,269	140,879			
Annual Growth (%)	0.1%	0.0%	0.4%	-0.2%	-0.1%	0.1%	0.4%	0.4%			
Annual Increase (Decrease)	134	50	549	(216)	(164)	107	606	610			
MONTGOMERY COLLEGE ENROLLMENTS (a)	22,254	22,263	22,700	23,140	23,590	23,760	23,940	23,940			
Annual Growth (%)	2.69%	0.04%	1.96%	1.94%	1.94%	0.72%	0.76%	0.00%			
Full Time Equivalents (Sept = Calendar Year) (a)	17,098	17,971	18,631	19,121	19,596	19,939	20,247	20,247			
Annual Growth in FTEs (%)	8.53%	5.11%	3.67%	2.63%	2.48%	1.75%	1.54%	0.00%			
MOTOR VEHICLE REGISTRATIONS	725,000	733,000	743,000	753,000	763,000	771,000	771,000	779,000			
Automobile Registrations	613,000	620,000	629,000	638,000	647,000	654,000	661,000	668,000			
Trucks and Other	112,000	113,000	114,000	115,000	116,000	117,000	110,000	111,000			
Automobile Registrations per Household	1.767	1.766	1.767	1.767	1.768	1.768	1.767	1.767			
Vehicle Registrations per Household	2.089	2.088	2.087	2.086	2.085	2.084	2.061	2.061			

(a) Projections related to Montgomery College Enrollments and Full Time Equivalents are provided by Montgomery College and only include projections thru FY11. Since no projections are provided for FY12, the projections for FY11 were used for FY12.

FY07 Taxes & User Charges for Average Homeowner In Montgomery County

	FY06	FY07	\$ CHG	% CHG
Property	\$ 3,177	\$ 3,256	\$ 79	2.5%
Income	\$ 2,943	\$ 3,032	\$ 89	3.0%
Other	\$ 1,121	\$ 1,076	\$ (44)	-4.0%
Total Taxes	\$ 7,240	\$ 7,364	\$ 124	1.7%
Water & Sewer	\$ 557	\$ 572	15	2.8%
Solid Waste/Leaf Collection	\$ 270	\$ 281	11	4.0%
Water Quality Protection Charge	\$ 19	\$ 18	(1)	-5.9%
Total Charges	\$ 846	\$ 871	\$ 25	2.9%
Total Taxes & Charges	\$ 8,086	\$ 8,235	\$ 149	1.8%

Note (1): Average household tax burden computed as total estimated revenue divided by number of households.

Note (2): Property Tax for FY06 at adopted rates effective July 1, 2005. Property tax for FY07 incorporates the County Executive's proposed 9.5 cent reduction in the General Fund real property tax rate.

Note (3): Other taxes include transfer, recordation, fuel/energy, telephone, and admissions.

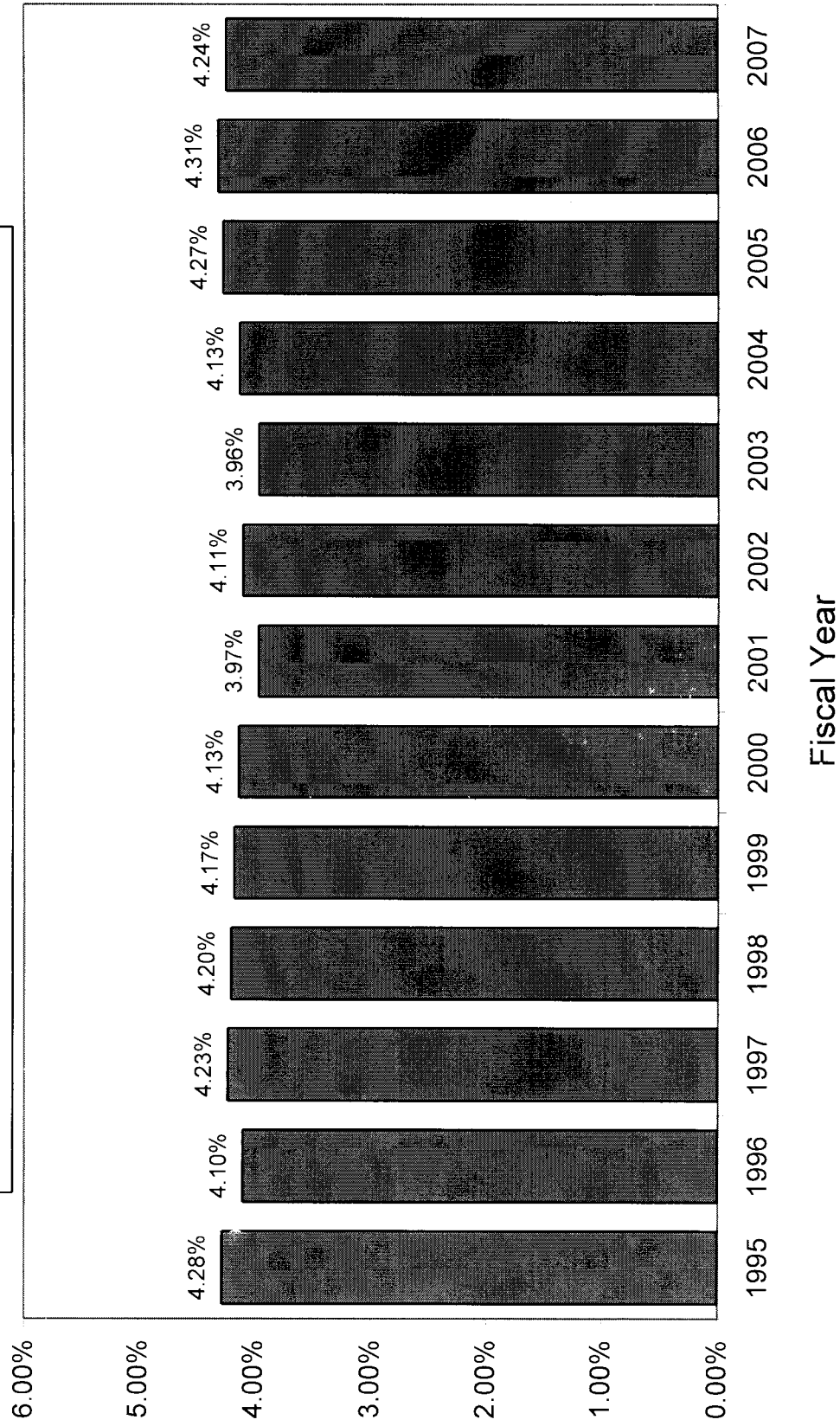
Note (4): Tax & User Charges are not adjusted for inflation.

Note (5): Water & Sewer assumes 210 gallons average daily consumption. Source: Fiscal Year 2007 Proposed Budget, Washington Suburban Sanitary Commission, page 11.

Note(6): Water Quality Protection Charge is on a per equivalent residential unit.

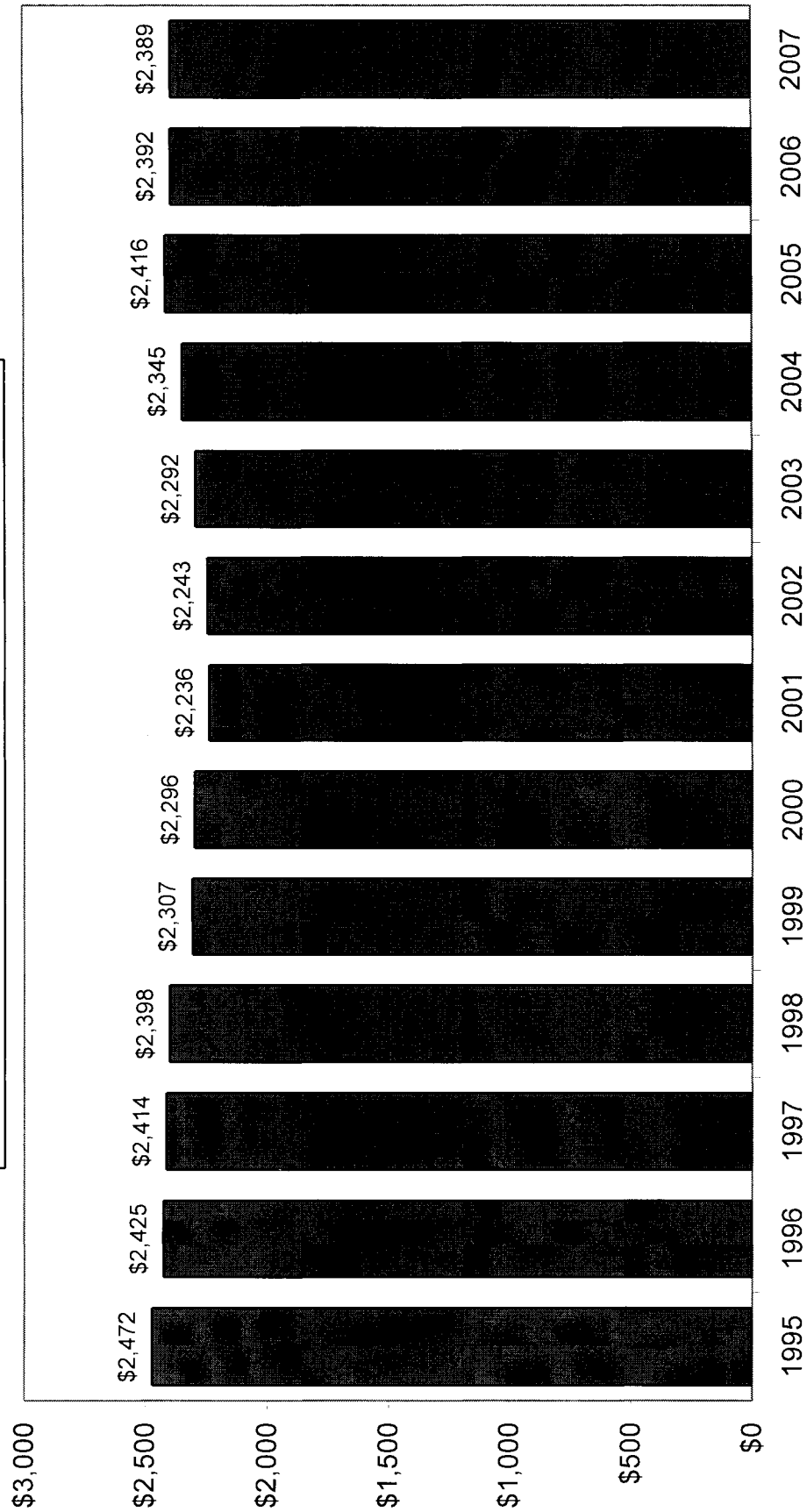
Source: Montgomery County Department of Finance

COUNTY TAXES AS A SHARE OF PERSONAL INCOME MONTGOMERY COUNTY



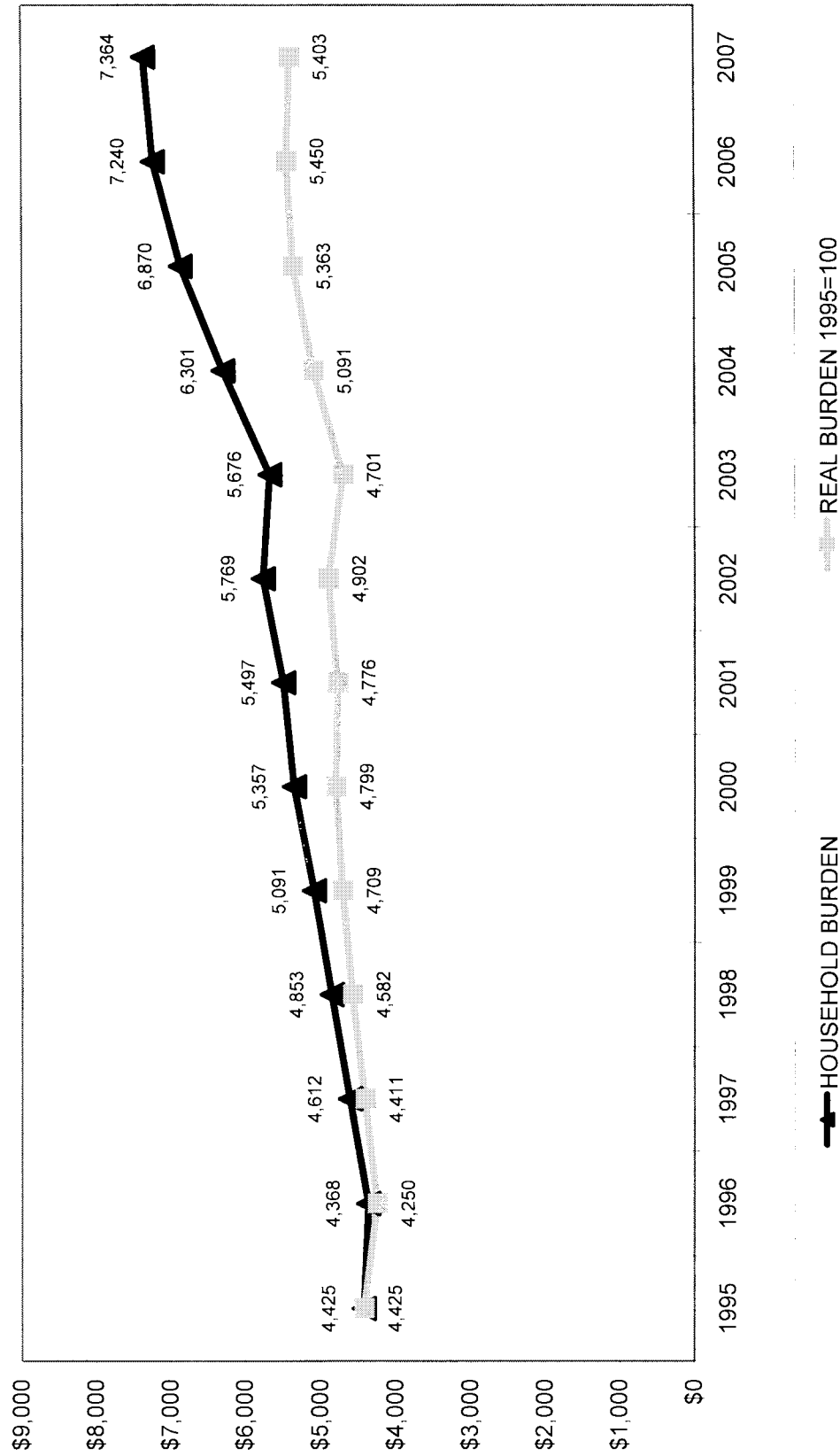
Prepared by Montgomery County Department of Finance

**AVERAGE HOUSEHOLD PROPERTY TAX BURDEN
BY FISCAL YEAR (INFLATION ADJUSTED TO 1995)
MONTGOMERY COUNTY**



Prepared by Montgomery County Department of Finance

AVERAGE HOUSEHOLD TAX BURDEN MONTGOMERY COUNTY BY FISCAL YEAR



Prepared by Montgomery County Department of Finance

FY07 FEE AND FINE CHANGES*			
DEPARTMENT/FEE AND FINE	FY07 REVENUE CHANGE	METHOD OF CHANGE	NOTE
ENVIRONMENTAL PROTECTION Decrease Water Quality Protection Charge	-157,300	Council Resolution	Decrease Water Quality Protection Charge from \$19.35 to \$18.20.
PERMITTING SERVICES Increase All Allowable Permitting Fees and Fines	1,768,010	Executive Regulation Method 2 and 3 for most fees. Council Resolutions for administration and enforcement of registered home occupations, requests to waive parking standards, zoning compliance letters, enforcement of sign permits & licenses and special exceptions	A 6.7% fee increase in all allowable permitting fees and fines is recommended consistent with the previously adopted policy increasing fees to cover increased labor costs.
New Surcharge for Site Plan Zone Permit/Other Fees	1,833,830	Executive Regulation Method 2	Effective March 1, 2006, a 25% surcharge on fees in site plan zones was approved by the County Council. Due to anticipated increased DPS responsibilities related to site plan enforcement, a 60% surcharge is recommended for FY07.
New Use & Occupancy Permit Fee for Single Family Homes	370,000	Executive Regulation Method 2	Previously, Use and Occupancy Permits were not required for single family homes. This new fee has been recommended to cover costs associated with the new proposed requirements.
Realignement of Existing Fees to Reflect Costs	1,500,000	Will depend on fees adjusted. Generally, Executive Regulation Method 2 and 3 as noted above.	Fees which are not sufficient to cover related costs will be identified and increased to improve cost recovery. Effective September 30, 2006.
PUBLIC WORKS AND TRANSPORTATION Increase Solid Waste Fees Increase Vacuum Leaf Collection Fees	50,960 218,360	Council Resolution Council Resolution	Increase single family charge per household from \$195.58 to \$203.65. Increase single family charge per household from \$74.28 to \$76.91.
TRANSIT SERVICES Increase Ride On 20-Trip Ticket	72,525	Council Resolution	Increase Ride On 20-Trip Ticket from \$18.00 to \$20.00. Effective January 1, 2007.
GRAND TOTAL	13,622,940		

* All changes are assumed to be effective July 1, 2006 except as noted.

Revenues above do not include implementation costs.

PROJECTED TOTAL USES OF RESOURCES (COMBINED USES)

(\$ Millions)																		
A		B	C	D	E	F	G	H	I	J	K	L	M	L	O	P		
USE OF RESOURCES		Approved FY06	Estimate FY06	% Chg. FY06-07	% Chg. FY06-07	Rec / Est	% Chg. FY07-08	Projected FY08	% Chg. FY08-09	Projected FY09	% Chg. FY09-10	Projected FY10	% Chg. FY10-11	Projected FY11	% Chg. FY11-12	Projected FY12		
			3-15-06															
1	Total Resources																	
2	Revenues	3,040.9	3,194.5	9.6%	4.3%	3,331.7	7.2%	3,570.5	6.5%	3,801.8	5.7%	4,018.9	6.0%	4,260.8	5.9%	4,510.6		
3	Beginning Reserves Undesignated	144.6	221.0	69.3%	10.8%	244.8	-54.8%	110.6	1.1%	111.8	11.1%	124.3	10.9%	137.8	10.9%	152.8		
4	Beginning Reserves Designated	1.9	1.9	-73.9%	49.5%	2.8	18.7	18.7	4.0	4.0	2.7%	28.4	2.7%	5.0	2.7%	5.4		
5	Net Transfers In	25.0	24.3	5.2%	8.0%	26.3	2.6%	27.0	2.7%	27.7	2.7%	28.4	2.7%	29.2	2.7%	30.0		
6	Total Resources	3,212.3	3,441.7	12.2%	4.8%	3,605.6	3.4%	3,726.7	5.9%	3,945.3	5.9%	4,176.2	6.1%	4,432.8	6.0%	4,698.7		
7	\$ Change from prior Budget	232.7	318.1			163.8		121.2		218.5		231.0		256.5		266.0		
8	Uses: Non-Agency																	
9	Capital Investment (a)																	
10	Debt Service: GO Bonds for all Ag's.	193.0	190.0	7.0%	8.6%	206.4	11.2%	229.5	6.0%	243.3	5.9%	257.6	4.2%	268.4	3.8%	278.7		
11	Debt Service: Local Parks	4.4	4.4	3.2%	3.5%	4.5	-3.1%	4.4	0.0%	4.4	0.0%	4.4	0.0%	4.4	0.0%	4.4		
12	Debt Service: Leases	23.1	22.2	-42.6%	-40.3%	13.2	22.1%	16.2	-2.7%	15.7	-7.2%	14.6	-2.7%	14.2	0.0%	14.2		
13	CIP Current Revenue (b)	9.3	10.9	695.3%	572.6%	73.6	-28.4%	52.7	-36.6%	33.5	-8.0%	30.8	-17.9%	25.3	0.1%	25.3		
14	CIP Paygo (b)	11.7	21.7	124.9%	21.5%	26.4	0.0%	26.4	9.8%	29.0	0.0%	29.0	17.2%	34.0	0.0%	34.0		
14a	CIP Paygo Rec Tax (b)	0.0	0.0	n/a	n/a	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0		
15	Sub-total Capital	241.4	249.3	34.3%	30.1%	324.2	1.5%	329.2	-1.0%	325.9	3.2%	336.4	3.0%	346.3	3.0%	356.5		
16	Other Uses																	
17	Set Aside: Potential Supplementals	0.0	43.8	n/a	n/a	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0		
18	Set Aside: Other Claims	0.0	0.0	n/a	n/a	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0		
19	Revenue Stabilization Fund	0.0	6.6	n/a	n/a	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0		
20	Sub-total Other	0.0	50.4			0.0		0.0		0.0		0.0		0.0		0.0		
21	Reserves																	
22	Revenue Stabilization Fund	101.2	107.8	6.5%	0.0%	107.8	0.0%	107.8	0.0%	107.8	0.0%	107.8	0.0%	107.8	0.0%	107.8		
23	Reserve Undesignated	91.7	244.8	20.6%	-54.8%	110.6	1.1%	111.8	11.1%	-124.3	10.9%	137.8	10.9%	152.8	10.4%	168.8		
24	Reserve Designated	2.6	2.8	624.9%	560.8%	18.7	4.0	4.0	4.7	4.7		5.0		5.4		5.4		
25	Sub-total Reserves	195.5	355.4	21.3%	-33.3%	237.1	-5.7%	223.6	5.9%	236.7	5.9%	250.6	6.1%	266.0	6.0%	281.9		
26	Less Revenue Stabilization Fund	(101.2)	(107.8)	6.5%	0.0%	(107.8)	0.0%	(107.8)	0.0%	(107.8)	0.0%	(107.8)	0.0%	(107.8)	0.0%	(107.8)		
27	Less Designated Reserve	(2.6)	(2.8)	624.9%	560.8%	(18.7)	(4.0)	(4.0)	(4.7)	(4.7)		(5.0)		(5.4)		(5.4)		
28	Sub-total Undesignated Reserves	91.7	244.8			110.6	1.1%	111.8	11.1%	124.3	10.9%	137.8	10.9%	152.8	10.4%	168.8		
29	Total Uses: Non-Agency	335.7	547.3	6.8	5.4	453.5	-1.9%	445.0	2.2%	454.8	5.3%	479.1	5.3%	504.5	5.2%	530.7		
30	Uses: Available for Agency Services	2,876.6	2,894.4	9.6%	8.9%	3,152.0	4.1%	3,281.8	6.4%	3,490.5	5.9%	3,697.1	6.3%	3,928.3	6.1%	4,168.0		
31	\$ Change from prior Budget	226.4	250.8			275.5		129.7		208.7		206.6		231.2		239.7		

(a) See separate displays elsewhere in this book for allocation of Debt Service and CIP Current Revenue by Agency (A3 Schedule).
(b) FY07-12 PAYGO and CIP Current Revenue include CE recommended CIP on January 15, 2006 with further changes to be transmitted shortly.

**REVENUE SUMMARY
TAX SUPPORTED BUDGETS**
(\$ Millions)

A KEY REVENUE CATEGORIES	B Approved FY06	C Estimate FY06 3-15-06	D % Chg. FY06-07 Rec/Bud	E % Chg. FY06-07 Rec/Est	F Rec FY07 3-15-06	G % Chg. FY07-08	H Projected FY08	I % Chg. FY08-09	J Projected FY09	K % Chg. FY09-10	L Projected FY10	M % Chg. FY10-11	N Projected FY11	O % Chg. FY11-12	P Projected FY12
TAXES															
1 Property Tax (less PDs)	1,105.2	1,105.7	4.0%	3.9%	1,148.9	12.6%	1,293.9	11.2%	1,439.5	9.6%	1,577.0	9.5%	1,726.7	9.2%	1,885.3
2 Income Tax	948.7	1,033.0	13.8%	4.5%	1,079.4	2.2%	1,102.8	4.5%	1,152.4	3.9%	1,197.6	4.6%	1,253.2	4.2%	1,305.7
3 Transfer Tax	113.0	146.5	24.4%	-4.0%	140.6	2.8%	144.5	5.4%	152.3	5.1%	160.1	5.1%	168.3	5.3%	177.2
4 Recardation Tax	71.1	91.9	19.8%	-7.3%	85.2	2.2%	87.0	4.8%	91.2	4.5%	95.3	4.5%	99.6	5.2%	104.8
5 Energy Tax	117.6	122.6	5.8%	1.5%	124.4	1.4%	126.1	1.4%	127.9	1.2%	129.4	1.2%	130.9	1.2%	132.5
6 Telephone Tax	29.1	29.7	3.5%	1.6%	30.2	1.6%	30.7	1.7%	31.2	1.7%	31.7	1.7%	32.2	1.8%	32.8
7 Hotel/Motel Tax	13.0	15.8	30.1%	7.4%	16.9	6.5%	18.0	11.6%	20.1	15.6%	19.9	6.5%	21.2	6.5%	22.6
8 Admissions Tax	2.7	2.7	3.6%	4.3%	2.8	4.3%	2.9	4.4%	3.0	4.4%	3.2	4.0%	3.3	4.0%	3.4
9 Total Local Taxes	2,400.4	2,547.8	9.5%	3.2%	2,628.3	6.8%	2,806.1	7.5%	3,017.6	6.5%	3,214.1	6.9%	3,435.5	6.7%	3,664.2
INTERGOVERNMENTAL AID															
10 Highway User	38.6	34.8	5.6%	17.2%	40.7	4.1%	42.4	4.1%	44.2	4.1%	46.0	4.1%	47.9	4.1%	49.9
11 Police Protection	13.0	13.0	0.0%	1.2%	13.0	1.2%	13.2	1.2%	13.3	1.2%	13.5	0.8%	13.6	0.8%	13.8
12 Libraries	3.8	3.8	5.0%	1.2%	4.0	1.2%	4.1	1.2%	4.1	1.2%	4.2	0.8%	4.2	0.8%	4.3
13 Health Services Case Formula	5.4	5.4	4.1%	2.6%	5.6	2.6%	5.7	2.7%	5.9	2.7%	6.0	2.7%	6.2	2.7%	6.4
14 Mass Transit	25.1	29.8	0.0%	2.6%	25.1	2.6%	25.8	2.7%	26.5	2.7%	27.2	2.7%	27.9	2.7%	28.7
15 Public Schools	301.6	301.6	16.5%	16.5%	351.4	14.0%	400.6	2.5%	410.6	2.5%	420.9	2.5%	431.4	2.5%	442.2
16 Community College	23.4	23.4	3.9%	3.9%	24.3	2.5%	24.9	2.5%	25.6	2.5%	26.2	2.5%	26.9	2.5%	27.5
17 Direct Reimbursements	31.1	35.0	-6.6%	3.2%	29.1	3.2%	30.0	3.3%	31.0	3.3%	32.0	3.1%	33.0	3.1%	34.0
17a Direct Reimb: DSS Services	36.4	35.2	0.6%	4.2%	36.6	0.0%	36.6	0.0%	36.6	0.0%	36.6	0.0%	36.6	0.0%	36.6
18 Other	11.3	9.0	-14.1%	3.2%	9.7	3.2%	10.1	3.3%	10.4	3.3%	10.7	3.1%	11.1	3.1%	11.4
19 Subtotal State Aid	489.9	491.1	10.2%	9.9%	539.7	10.0%	593.4	2.5%	608.2	2.5%	623.4	2.5%	638.9	2.5%	654.7
20 Federal Aid	1.4	1.5	7.5%	1.6%	1.5	1.6%	1.5	1.7%	1.6	1.7%	1.6	1.6%	1.6	1.5%	1.6
21 Total Intergovernmental Aid	491.3	492.6	10.2%	9.9%	541.2	9.9%	594.9	2.5%	609.8	2.5%	625.0	2.5%	640.5	2.5%	656.4
FEES AND FINES															
22 Licenses & Permits	12.5	11.8	-14.6%	1.5%	10.7	1.5%	10.8	1.5%	11.0	1.5%	11.1	1.5%	11.3	1.5%	11.5
23 Charges for Services	46.8	44.3	-1.1%	2.1%	46.3	2.1%	47.2	2.2%	48.2	2.2%	49.3	2.2%	50.4	2.2%	51.4
24 Fines & Forfeitures	10.4	10.4	31.4%	1.6%	13.7	1.6%	13.9	1.6%	14.1	1.6%	14.3	1.6%	14.6	1.6%	14.8
25 Montgomery College Tuition	57.5	56.6	3.5%	5.2%	59.6	3.9%	61.9	3.3%	63.9	3.3%	66.0	3.2%	68.1	3.2%	70.4
26 Total Fees and Fines	127.2	123.2	2.3%	5.7%	130.1	2.8%	133.8	2.6%	137.2	2.6%	140.8	2.6%	144.4	2.6%	148.1
MISCELLANEOUS															
27 Investment Income	12.9	20.4	70.0%	7.9%	22.0	15.3%	25.3	4.7%	26.5	6.0%	28.1	3.8%	29.2	4.1%	30.4
28 Other Miscellaneous	9.1	10.7	11.0%	2.6%	10.1	2.6%	10.4	2.7%	10.6	2.7%	10.9	2.7%	11.2	2.7%	11.5
29 Total Miscellaneous	22.0	31.0	45.6%	3.3%	32.1	11.3%	35.7	4.1%	37.2	5.1%	39.0	3.5%	40.4	3.7%	41.9
30 TOTAL REVENUES	3,040.9	3,194.5	9.6%	4.3%	3,331.7	7.2%	3,570.5	6.5%	3,801.8	5.7%	4,018.9	6.0%	4,260.8	5.9%	4,510.6
31 \$ Change from prior Budget	170.2	227.6			137.2		238.8		231.3		217.1		241.9		249.8

County Executive's Recommended FY07-12 Public Services Program Tax Supported Fiscal Plan Summary

	App FY06	Estimate FY06 3-15-06	% Chg. FY06-07 Rec/Bud	% Chg. FY06-07 Rec/Fit	Rec FY07 3-15-06	% Chg. FY07-08	Projected FY08	% Chg. FY08-09	Projected FY09	% Chg. FY09-10	Projected FY10	% Chg. FY10-11	Projected FY11	% Chg. FY11-12	Projected FY12
Total Resources															
Revenues	3,040.9	3,194.5	9.6%	4.3%	3,331.7	7.2%	3,570.5	6.5%	3,801.8	5.7%	4,018.9	6.0%	4,260.8	5.9%	4,510.6
Beginning Reserves Undesignated	144.6	221.0	49.3%	10.8%	244.8	-54.8%	110.6	1.1%	111.8	11.1%	124.3	10.9%	137.8	10.9%	152.8
Beginning Reserves Designated	1.9	1.9	49.5%	49.5%	2.8	560.8%	18.7	-78.5%	4.0	16.1%	4.7	7.3%	5.0	6.8%	5.4
Net Transfers In (Out)	25.0	24.3	5.2%	8.0%	26.3	2.6%	27.0	2.7%	27.7	2.7%	28.4	2.7%	29.2	2.7%	30.0
Total Resources Available	3,212.3	3,441.7	12.2%	4.8%	3,605.6	3.4%	3,726.7	5.9%	3,945.3	5.9%	4,176.2	6.1%	4,432.8	6.0%	4,698.7
Less Other Uses of Resources (Capital, Debt Service, Reserve)	335.7	547.3	35.1%	-17.1%	453.5	-1.9%	445.0	2.2%	454.8	5.3%	479.1	5.3%	504.5	5.2%	530.7
Available to Allocate to Agencies	2,876.6	2,894.4	9.6%	8.9%	3,152.0	4.1%	3,281.8	6.4%	3,490.5	5.9%	3,697.1	6.3%	3,928.3	6.1%	4,168.0
Agency Uses															
Montgomery County Public Schools (MCPS)	1,592.2	1,591.2	7.5%	7.6%	1,711.6	6.7%	1,826.1	6.7%	1,948.2	6.7%	2,078.6	6.7%	2,217.6	6.7%	2,366.0
Montgomery College (MC)	164.4	158.6	9.3%	13.3%	179.7	7.3%	192.7	7.3%	206.7	7.3%	221.7	7.3%	237.8	7.3%	255.1
MNCFPC (w/o Debt Service)	84.3	84.9	6.0%	5.3%	89.4	4.3%	93.3	4.3%	97.3	4.3%	101.5	4.3%	105.9	4.3%	110.5
MCG	1,035.7	1,059.7	13.1%	10.3%	1,171.4	5.7%	1,237.7	5.7%	1,307.8	5.7%	1,381.8	5.7%	1,460.0	5.7%	1,542.6
Subtotal Agency Uses	2,876.6	2,894.4	9.6%	8.9%	3,152.0	6.3%	3,349.8	6.3%	3,560.0	6.3%	3,783.6	6.3%	4,021.3	6.3%	4,274.1
Subtotal Other Uses of Resources (Capital, Debt Service Reserve)	335.7	547.3	35.1%	-17.1%	453.5	-1.9%	445.0	2.2%	454.8	5.3%	479.1	5.3%	504.5	5.2%	530.7
Total Uses	3,212.3	3,441.7	12.2%	4.8%	3,605.6	5.2%	3,794.7	5.8%	4,014.8	6.2%	4,262.7	6.2%	4,525.8	6.2%	4,804.8
Tier 1															
(Gaps)/Available at a historical rate of growth					0.0		(68.0)		(69.5)		(86.5)		(93.0)		(106.1)
Tier 2															
Government Accounting Standards Board Statement Number 43/45					0.0		(156.3)		(160.6)		(164.9)		(169.2)		(169.2)

County Executive's Recommended FY07-12 Public Services Program Tax Supported Fiscal Plan Summary Assumptions

Tier 1:

1. Projected Agency Uses for FY08-12 for all agencies are based on "Average of the Annual Rate of Change in actual budgets for the period FY95 to FY05 and approved budget of FY06".
 - a) For MCPS, MOE requires the same local contribution per pupil in each year.
 - b) For MC, MOE is the same local contribution amount as in the previous year.
 - c) Additional State aid at current formulas, miscellaneous revenues, and additional tuition revenues are assumed as applicable.
 - d) The Fuel Energy Tax is maintained at the rates approved for the FY06 budget.
2. The labor contracts will expire as follows:
 - a) MNCFPC's contract with MCGEO expires at the end of FY09.
 - b) The MCG contracts with the County Fraternal Order of Police (FOP) Lodge #35 and Municipal and County Government Employees Organization (MCGEO) Local 1994 will expire at the end of FY07.
 - c) It is assumed here that the Board of Education's contracts with the Montgomery County Education Association, Montgomery County Council of Supporting Services Employees, and the Montgomery County Association of Administrative and Supervisory Personnel (MCAASP) will expire at the end of FY07.
 - d) The County's contract with the International Association of Firefighters (IAFF) Local 1664 expires at the end of FY08.

- e) The FY06 estimate under Council Resolution #15-105 includes a one-time income tax credit offset of \$28,506,457 and a homeowners tax credit of \$4,541,553.
- f) For FY08-12, the estimates do not include an income tax credit offset, but assume a homeowner tax credit of \$4,541,553 which is reauthorized every fiscal year.

Tier 2:

3. Tier 2 also includes the estimated cost of compliance with GASB 43/45, pre-funding post-employment group insurance benefits.